

Thursday, 7 April 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,490	-0.5%			Last	Overnight Chg		Australia		
US Dow Jones	34,497	-0.4%	10 yr bond	97.02		0.01		90 day BBSW	0.28	0.05
Japan Nikkei	27,350	-1.6%	3 yr bond	97.26		0.03		2 year bond	2.12	0.16
China Shanghai	3,441	0.0%	3 mth bill rate	99.23		0.01		3 year bond	2.56	0.08
German DAX	14,152	-1.9%	SPI 200	7,434.0		-21		3 year swap	2.82	0.05
UK FTSE100	7,588	-0.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	2.93	0.08
Commodities (close & change)*			TWI	64.9	-	-	64.8	United States		
CRB Index	293.1	-5.0	AUD/USD	0.7581	0.7593	0.7486	0.7511	3-month T Bill	0.65	0.01
Gold	1,925.35	1.8	AUD/JPY	93.69	94.14	92.72	92.98	2 year bond	2.47	-0.04
Copper	10,437.00	-18.3	AUD/GBP	0.5795	0.5812	0.5735	0.5747	10 year bond	2.60	0.05
Oil (WTI futures)	96.23	-5.7	AUD/NZD	1.0911	1.0922	1.0850	1.0854	Other (10 year yields)		
Coal (thermal)	289.35	9.4	AUD/EUR	0.6951	0.6974	0.6878	0.6891	Germany	0.65	0.03
Coal (coking)	411.67	-12.3	AUD/CNH	4.8360	4.8431	4.7675	4.7768	Japan	0.25	0.03
Iron Ore	159.20	-2.2	USD Index	99.48	99.77	99.31	99.63	UK	1.70	0.05

Data as at 7:30am AEST. Change from previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: Risk sentiment weakened as the minutes of the Federal Reserve March meeting indicated that the Fed may reduce its balance sheet by as much as \$95 billion a month. Many officials also preferred a 50 basis point hike at the March meeting, but held back due to concerns around the war in Ukraine. Equity markets declined, the US yield curve steepened, and the US dollar was stronger against major currencies.

Share Markets: Equity markets dropped and maintained their losses following the publication of the Federal Reserve minutes. The minutes showed that officials were mindful of inflation concerns.

The S&P 500 closed 1.0% lower, the Nasdaq dropped 2.2% and the Dow Jones declined 0.4%.

The ASX 200 fell by 0.5% yesterday and futures are pointing to a further decline on the open today.

Interest Rates: The US yield curve steepened as short-term bond yields fell and long-term yields rose. Long-term yields increased as the minutes signalled that as much as \$95 billion a month of bonds would be sold by the Fed. The US 10-year treasury yield rose by 5 basis points to 2.60%. The 2-year yield fell by 4 basis points to 2.47%.

The moves led to a steeping of the 2-10 year yield curve, which moved out of inversion territory recently and increased further overnight.

The 10-year Australian government bond yield (futures) fell from 3.00% to 2.98%. The 3-year

government bond yield (futures) also pulled back from 2.77% to 2.74%.

Foreign Exchange: The US dollar rose against a basket of major currencies. The USD Index increased to its highest level since May 2020. The Index moved from a low of 99.31 to a high of 99.77, before consolidating to around 99.63.

The AUD/USD pair declined, falling from a high of 0.7593 to a low of 0.7486. The pair has since recovered some ground and was trading around 0.7511 at the time of writing.

Commodities: Oil prices fell sharply to be well below the US\$100 a barrel mark. Prices declined to around US\$96 a barrel as the International Energy Agency said that it plans to add another 60 million barrels to the oil stock release already announced by the US. Data indicated that crude oil inventories rose by more than 2 million barrels in the US last week.

Iron ore and copper were also lower. Gold increased in line with a decline in risk sentiment.

Australia: There were no major economic data releases yesterday.

China: The Caixin services purchasing managers' index (PMI) plunged to 42.0 in March, from 50.2 in February. The index is at its lowest level in over two years since February 2020.

Europe: Producer prices rose by 1.1% in February, down from a 5.1% rise in January. In annual terms,

producer prices were 31.4% higher over the year to February, slightly below consensus expectations of 31.6%. This was a record annual increase, dating back to 1982. The record follows a 30.6% gain over the year to January.

German factory orders fell by 2.2% in February, following a revised 2.3% gain in January. This was weaker than consensus expectations, which centred on a fall of 0.3%.

Ukraine and Russia: Sanction on Russia were increased further by the US and the UK. European officials are also debating additional sanctions. Sanctions will be imposed on Sberbank and Alfa Bank, in addition to a Putin's two daughters and a range of other oligarchs. The UK will seek to end its imports of Russian coal and oil by the end of this year.

The skyrocketing cost of insuring Russian Government debt implies a 99% probability of default within the year.

United States: The minutes of the March meeting showed that many Federal Reserve officials were willing to increase rates by 50 basis points in March. However, officials held back on the stronger move due to the outbreak of war in Ukraine and increased rates by 25 basis points instead.

The minutes indicated that the Fed may reduce its bond holdings by as much as \$95 billion a month when it begins quantitative tightening. The plan is expected to be approved at the upcoming May meeting. This would be made up of \$60 billion of treasuries and \$35 billion of mortgage-backed securities. This pace of tightening would be almost twice as fast as the \$50 billion peak during the previous unwinding of quantitative easing in 2017-2019.

Today's key data and events:

AU Trade Bal. Feb exp \$13.2bn prev \$12.9bn (11:30am)
EZ Ger. Indust. Production Feb exp 0.2% prev 2.7% (4pm)
EZ Retail Sales Feb exp 0.5% prev 0.2% (7pm)
US Cons. Credit Feb exp \$18.1b prev \$6.8b (5am)

Times are AEDT. All data forecasts are m/m or q/q and seasonally adjusted unless otherwise specified. Forecasts for Australian data are our forecasts and for other countries they are consensus forecasts.

Jarek Kowcza, Senior Economist

Ph: 0481 476 436

Contact Listing

Chief Economist

Besa Deda
dedab@bankofmelbourne.com.au
(02) 8254 3251

Economist

Matthew Bunny
matthew.bunny@bankofmelbourne.com.au
(02) 8254 0023

Senior Economist

Jarek Kowcza
jarek.kowcza@bankofmelbourne.com.au
0481 476 436

Associate Economist

Jameson Coombs
jameson.coombs@bankofmelbourne.com.au
0401 102 789

The Detail

The information contained in this report ("the Information") is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom Bank of Melbourne has a contract to supply Information, the supply of the Information is made under that contract and Bank of Melbourne's agreed terms of supply apply. Bank of Melbourne does not represent or guarantee that the Information is accurate or free from errors or omissions and Bank of Melbourne disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to Bank of Melbourne products and details are available. Bank of Melbourne or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. Bank of Melbourne owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of Bank of Melbourne.

Any unauthorised use or dissemination is prohibited. Neither Bank of Melbourne- A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac's subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.
